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National Democratic Institute For International Affairs

Financial Report
September 30, 2009

McGladrey & Pullen
Certified Public Accountants

Contents

Independent Auditor's Report	1
Financial Statements	
Statements Of Financial Position	2
Statements Of Activities	3
Statements Of Cash Flows	4
Notes To Financial Statements	5 – 11

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
National Democratic Institute for International Affairs
Washington, D.C.

We have audited the accompanying statements of financial position of the National Democratic Institute for International Affairs (NDI) as of September 30, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of NDI's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Democratic Institute for International Affairs as of September 30, 2009 and 2008, and the change in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports dated March 5, 2010 and January 13, 2009, on our consideration of NDI's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

McGladrey & Pullen, LLP

Vienna, Virginia
March 5, 2010

National Democratic Institute For International Affairs

**Statements Of Financial Position
September 30, 2009 And 2008**

Assets	2009			2008
	Federal	Nonfederal	Total	
Current Assets				
Cash and cash equivalents				
Headquarters	\$ 1,807,535	\$ 4,998,062	\$ 6,805,597	\$ 6,435,790
Advanced to field offices	3,503,492	253,677	3,757,169	3,278,495
	5,311,027	5,251,739	10,562,766	9,714,285
Investments (Note 2)	-	816,745	816,745	1,308,919
Grant receivables	2,787,299	300,218	3,087,517	966,929
Pledge and other receivables	-	677,944	677,944	489,865
Advances to subrecipients	787,144	19,689	806,833	1,275,354
Prepaid expenses and other assets	1,756,874	161,803	1,918,677	944,852
Total current assets	10,642,344	7,228,138	17,870,482	14,700,204
Deposits	368,277	72,362	440,639	437,233
Property And Equipment, net (Note 3)	773,111	1,192	774,303	1,097,935
	\$ 11,783,732	\$ 7,301,692	\$ 19,085,424	\$ 16,235,372

Liabilities And Net Assets

Current Liabilities				
Accounts payable and accrued expenses	\$ 3,776,712	\$ 104,620	\$ 3,881,332	\$ 2,627,949
Accrued compensation	1,633,517	1,909,575	3,543,092	2,876,567
Accrued annual leave	1,891,988	484,696	2,376,684	2,143,627
Grants payable to subrecipients	519,092	965	520,057	836,058
Deferred rent	464,032	-	464,032	599,163
Refundable advances	3,488,779	2,566,462	6,055,241	5,143,964
Total current liabilities	11,774,120	5,066,318	16,840,438	14,227,328

Commitments And Contingencies (Notes 6, 7 And 9)

Net Assets

Unrestricted	9,612	1,385,733	1,395,345	1,491,733
Temporarily restricted (Note 8)	-	849,641	849,641	516,311
	9,612	2,235,374	2,244,986	2,008,044
	\$ 11,783,732	\$ 7,301,692	\$ 19,085,424	\$ 16,235,372

See Notes To Financial Statements.

National Democratic Institute For International Affairs

Statements Of Activities

Years Ended September 30, 2009 And 2008

	2009			2008
	Federal	Nonfederal	Total	
Support and Revenue:				
Changes in unrestricted net assets:				
Unrestricted revenue:				
Grants and cooperative agreements:				
U.S. Agency for International Development	\$ 63,823,345	\$ -	\$ 63,823,345	\$ 63,134,702
U.S. Department of State	31,506,010	-	31,506,010	31,656,223
National Endowment for Democracy	13,058,006	-	13,058,006	12,945,559
Other sponsors	-	8,549,282	8,549,282	7,178,456
Monetary and other contributions	-	751,239	751,239	1,634,480
Donated professional services (Note 4)	726,843	19,110	745,953	594,946
Investment income (loss) (Note 2)	-	27,651	27,651	(143,642)
Net assets released from restrictions	-	172,699	172,699	257,033
Total support and revenue	109,114,204	9,519,981	118,634,185	117,257,757
Expenses (Note 5):				
Africa	25,815,893	3,392,909	29,208,802	31,386,519
Asia	15,679,947	3,584,930	19,264,877	15,418,334
Central and Eastern Europe	6,116,948	597,938	6,714,886	9,264,637
Eurasia	10,480,935	157,429	10,638,364	12,895,356
Latin America and Caribbean	9,828,472	343,902	10,172,374	8,265,201
Middle East and North Africa	39,800,453	4,866	39,805,319	36,640,099
Other	1,391,556	1,534,395	2,925,951	3,949,423
Total expenses	109,114,204	9,616,369	118,730,573	117,819,569
Change in unrestricted net assets	-	(96,388)	(96,388)	(561,812)
Changes in Temporarily Restricted Net Assets:				
Contributions	-	506,029	506,029	104,619
Net assets released from restrictions	-	(172,699)	(172,699)	(257,033)
Change in temporarily restricted net assets	-	333,330	333,330	(152,414)
Change in net assets	-	236,942	236,942	(714,226)
Net Assets:				
Beginning	9,612	1,998,432	2,008,044	2,722,270
Ending	\$ 9,612	\$ 2,235,374	\$ 2,244,986	\$ 2,008,044

See Notes To Financial Statements.

National Democratic Institute For International Affairs

Statements Of Cash Flows

Years Ended September 30, 2009 And 2008

	2009			2008
	Federal	Nonfederal	Total	
Cash Flows From Operating Activities				
Change in net assets	\$ -	\$ 236,942	\$ 236,942	\$ (714,226)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:				
Depreciation	383,115	2,384	385,499	304,669
Net (gain) loss on investments	-	(1,480)	(1,480)	199,904
(Increase) decrease in:				
Grant receivables	(2,116,047)	(4,541)	(2,120,588)	745,927
Pledge and other receivables	-	(188,079)	(188,079)	178,924
Advances to subrecipients	134,558	333,963	468,521	(50,096)
Prepaid expenses and other assets	(884,525)	(89,300)	(973,825)	8,237
Deposits	45,321	(48,727)	(3,406)	1,393,245
Increase (decrease) in:				
Accounts payable and accrued expenses	1,513,478	(260,095)	1,253,383	(228,898)
Accrued compensation and annual leave	(1,333,990)	2,233,572	899,582	1,408,783
Grants payable to subrecipients	(160,547)	(155,454)	(316,001)	349,281
Deferred rent	(135,131)	-	(135,131)	27,268
Refundable advances	411,109	500,168	911,277	(2,071,063)
Net cash (used in) provided by operating activities	(2,142,659)	2,559,353	416,694	1,551,955
Cash Flows From Investing Activities				
Purchase of property and equipment	(61,867)	-	(61,867)	(428,164)
Sale of investments	-	546,082	546,082	55,285
Purchase of investments	-	(52,428)	(52,428)	(101,028)
Net cash (used in) provided by investing activities	(61,867)	493,654	431,787	(473,907)
Net (decrease) increase in cash and cash equivalents	(2,204,526)	3,053,007	848,481	1,078,048
Cash And Cash Equivalents				
Beginning	7,515,553	2,198,732	9,714,285	8,636,237
Ending	\$ 5,311,027	\$ 5,251,739	\$ 10,562,766	\$ 9,714,285

See Notes To Financial Statements.

National Democratic Institute For International Affairs

Notes To Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies

Nature of activities: The National Democratic Institute for International Affairs (NDI) is a nonprofit organization working to strengthen and expand democracy worldwide. Calling on a global network of volunteer experts, NDI provides practical assistance to civic and political leaders, advancing democratic values, practices, and institutions. NDI works with democrats in every region of the world to build political and civic organizations; safeguard elections; and promote citizen participation, openness and accountability in government.

NDI receives its principal funding from U.S. government sponsors. Primary nonfederal sponsors include international governments and inter-governmental organizations.

A summary of NDI's significant accounting policies follows:

Basis of accounting: The accompanying financial statements are presented in accordance with the accrual basis of accounting, whereby, revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation: Activities and balances are reported as either federal or nonfederal. NDI is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. There are no permanently restricted net assets at September 30, 2009 and 2008.

Grants and cooperative agreements: Revenue from grants and cooperative agreements is recognized as related reimbursable expenses are incurred. Allowable expenses incurred in excess of cumulative reimbursements are reported within grant receivables. Cash received in excess of allowable expenditures incurred is reported as refundable advances.

Federal revenue is derived from agreements with the United States Agency for International Development (USAID), the U.S. Department of State, and the National Endowment for Democracy (NED). These agreements are generally for periods of two years or less, and therefore, the organization is subject to the risk that similar funding may not be available in future years.

Grants and cooperative agreements include provisions relating to the reimbursement of indirect expenses and fringe benefit costs at negotiated rates. The recoveries billable during the year at provisional rates are adjusted at year-end based on the final actual indirect cost and fringe benefit rates for the year.

The Consortium for Elections and Political Process Strengthening (CEPPS) is a joint venture among the International Republican Institute (IRI), International Foundation for Electoral Systems (IFES) and NDI. CEPPS was established on August 1, 1995, for the purpose of receiving awards from the USAID to implement global election and political process programs. CEPPS is a 501(c)(3) organization.

Contributions: Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted revenue and support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose of restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

National Democratic Institute For International Affairs

Notes To Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Donated services: Donated services of personnel who provide professional services to NDI programs are reported as both contribution revenue and program expense. Such services are valued at NED's maximum standard daily reimbursement rate for consultants, which approximates fair value (See Note 4). Services of volunteers who have donated their time to NDI but who do not possess specialized skills are not recognized in the financial statements, consistent with generally accepted accounting principles.

Cash and cash equivalents: Cash equivalents consist of money market accounts, which totaled approximately \$831,000 and \$302,000 at September 30, 2009 and 2008, respectively.

Cash and cash equivalents advanced to field offices are presented separately from amounts held at NDI headquarters, and consist of balances maintained in accounts overseas used to finance operations in those countries.

Financial risk: Financial instruments that potentially subject NDI to concentrations of credit risk consist primarily of checking accounts and certificates of deposits. NDI maintains these accounts at a high credit-quality institution. Cash and certificates of deposits held at one institution that exceeded federally insured limits were approximately \$935,000 and \$1.1 million at September 30, 2009 and 2008, respectively.

Investments: Investments consist of certificates of deposit with original maturities of 90 days or more and equity securities and are recorded at fair value based on quoted market prices. Dividends and interest are reflected as income when earned.

Grants and other receivables: Receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a quarterly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using the historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. There was no provision for doubtful accounts at September 30, 2009 and 2008.

Property and equipment: Property consists of equipment, computers, furniture, leasehold improvements, and software. As NDI does not retain full beneficial ownership of property purchased with federal and/or nonfederal funds for direct program use, these purchases are charged to program expense at the date of acquisition.

Purchases of property costing \$5,000 or more and used for indirect purposes are capitalized and depreciated over the estimated useful life of the asset. Property in the indirect cost pool is included in the federal column within the statements of financial position. Related indirect depreciation expense is allocated to both federal and nonfederal activities.

Depreciation on capitalized property is computed over five years for equipment and computers and over seven years for furniture. Leasehold improvements are amortized over the shorter of their estimated useful life or the remaining life of the lease at the time of purchase. Software is amortized over its expected useful life, generally five years.

Maintenance, repairs, and renewal costs related to property are charged to expense as incurred.

National Democratic Institute For International Affairs

Notes To Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Foreign currency translation: Those elements of the financial statements reflecting NDI's operations in foreign countries are translated into U.S. dollars using applicable exchange rates. For assets, liabilities, and revenue and expense items, translation is performed using rates in effect at the date of the transaction or average rates for the month for multiple transactions.

The local currencies in NDI's foreign operations are considered to be the functional currency of those operations.

Travel advances, prepaid expenses, and deposits: Travel advances, prepaid expenses, and deposits consist of funds provided either to NDI employees to cover travel expenses, or vendors to meet or secure future obligations.

Deposits consist of funds to secure office and residential leases and of down payments on the purchase of fixed assets.

Functional expenses: Certain costs have been allocated between program and supporting services benefited, based on various allocation methods representing their estimated relative benefit to those activities. NDI's mission is conducted through programs to advance democratic values, practices, and institutions in various regions of the world, which is the primary allocation reported in the statements of activities. The functional presentation of expenses is disclosed in Note 5.

Income taxes: NDI is recognized as exempt from federal income taxes on activities related to its exempt purpose under Section 501(c)(3) of the Internal Revenue Code, and has been further classified by the Internal Revenue Service as an organization that is not a private foundation under Section 509(a)(1).

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications: Certain items in the September 30, 2008 financial statements have been reclassified to conform to the September 30, 2009 financial statement presentation. These reclassifications had no effect on the previously reported change in net assets.

Recent and upcoming accounting pronouncements: During the year ended September 30, 2009, NDI adopted a new pronouncement regarding the fair value measurement. This pronouncement defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. NDI has added the required disclosures in Note 10 to the financial statements.

National Democratic Institute For International Affairs

Notes To Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Recent and upcoming accounting pronouncements (continued): The Income Tax Topic of the FASB Codification (the Codification) prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return, including positions that the organization is exempt from income taxes or not subject to income taxes on unrelated business income. If there are changes in net assets as a result of the application of the provisions of the Codification, these will be accounted for as an adjustment to the opening balance of net assets. Additional disclosures about the amounts of such liabilities will also be required. NDI presently recognizes income tax positions based on management's estimate of whether it is probable and reasonably possible that a liability has been incurred for unrecognized income tax benefits by applying the provisions of the Contingency Topic of the FASB Codification. NDI has elected to defer the application of the uncertainty in income tax provisions of the Income Tax Topic of the FASB codification and will be required to adopt these provisions in its 2010 annual financial statements.

Subsequent events: NDI evaluated subsequent events for potential required disclosures through March 5, 2010, which is the date the financial statements were available to be issued.

Note 2. Investments

Investments are reported at their fair market value and consist of the following at September 30, 2009 and 2008:

	2009	2008
Certificates of deposit	\$ 636,261	\$ 621,833
Mutual funds	180,475	159,793
Common and preferred stocks	9	527,293
	<u>\$ 816,745</u>	<u>\$ 1,308,919</u>

Investment income (loss) consists of the following for the years ended September 30, 2009 and 2008:

	2009	2008
Interest and dividend income	\$ 26,171	\$ 56,262
Realized and unrealized gain (loss) on investments	1,480	(199,904)
	<u>\$ 27,651</u>	<u>\$ (143,642)</u>

Note 3. Property And Equipment

Property and equipment consist of the following at September 30, 2009 and 2008:

	2009	2008
Furniture and equipment	\$ 712,707	\$ 702,148
Leasehold improvements	675,636	643,173
Software	753,019	734,174
	<u>2,141,362</u>	<u>2,079,495</u>
Accumulated depreciation	(1,367,059)	(981,560)
	<u>\$ 774,303</u>	<u>\$ 1,097,935</u>

Depreciation expense was \$385,499 and \$304,669 for the years ended September 30, 2009 and 2008, respectively.

National Democratic Institute For International Affairs

Notes To Financial Statements

Note 4. Donated Professional Services

NDI relies on a global network of volunteer experts who provide practical assistance to political and civic leaders advancing democratic values, practices, and institutions. The volunteers serve as trainers, election observers, and advisors to NDI's development programs, and demonstrate concretely the solidarity and mutual support system among democracies throughout the world. These experts are central to serving NDI's mission.

Note 5. Expenses

NDI's expenses presented by function consist of the following at September 30, 2009 and 2008:

	2009	2008
Program services:		
Democratization programs	\$ 103,470,161	\$ 102,774,918
Supporting services:		
Management and general	14,715,350	14,628,166
Fundraising	545,062	416,485
	<u>\$ 118,730,573</u>	<u>\$ 117,819,569</u>

Note 6. Benefit Plans

NDI has defined contribution pension plans that cover substantially all employees meeting certain minimum age and length-of-employment requirements. Contributions to the plans are equal to 10% of eligible employee compensation. Pension expense was approximately \$2,386,000 and \$2,219,000 for the years ended September 30, 2009 and 2008, respectively.

Effective January 1, 2003, NDI created a supplemental retirement plan (the Plan) in accordance with the Internal Revenue Code, Section 457. The Plan is intended to provide deferred compensation for a select group of management or highly compensated employees. Eligibility for the Plan, as well as contribution amounts, is determined by the Executive Committee of the Board of Directors. The Plan does not allow for employee contributions. Contributions to the Plan were approximately \$38,000 and \$0 for the years ended September 30, 2009 and 2008, respectively. Funds set aside for Plan benefits are included in NDI's reported investments in the statements of financial position. Such assets are subject to claims of creditors as with other NDI assets. The Plan's liabilities are classified within accrued compensation in the statements of financial position.

Note 7. Lease Commitments

NDI leases office space for its U.S. operations under a ten-year noncancelable lease effective October 1, 2001, and under a three-year noncancelable lease effective March 1, 2006. For the ten-year lease, as required by the lease's terms, NDI has obtained a letter of credit with a borrowing limit of \$413,000, which serves as security for performance under the lease. The letter of credit borrowing limit requirement will decline to \$303,000 in years nine and ten of the lease. The lending agency requires NDI to secure the letter of credit with a financial instrument of an equal or higher value.

At September 30, 2009, NDI held one certificate of deposit for approximately \$636,000 and bearing interest of 1.98% to secure the letters of credit.

National Democratic Institute For International Affairs

Notes To Financial Statements

Note 7. Lease Commitments (Continued)

NDI also has operating lease commitments for its offices maintained throughout the world. These leases are generally renewable on an annual basis.

Approximate future minimum lease payments are as follows:

Years Ending September 30,	
2010	\$ 2,748,000
2011	2,685,000
	<u>\$ 5,433,000</u>

Rent expenses for NDI's headquarters and space in foreign offices were approximately \$5,346,000 and \$5,085,000 for the years ended September 30, 2009 and 2008, respectively.

Note 8. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at September 30, 2009 and 2008:

	2009	2008
Contributions due in future periods for general operations	\$ 36,650	\$ 95,000
Contributions restricted for specific democratization programs	812,991	421,311
	<u>\$ 849,641</u>	<u>\$ 516,311</u>

For the year ended September 30, 2009, NDI released funds totaling \$95,000 due to the time restriction being fulfilled and approximately \$78,000 for the purpose restriction being fulfilled. For the year ended September 30, 2008, NDI released funds totaling \$208,500 due to the time restriction being fulfilled and approximately \$48,000 for the purpose restriction being fulfilled.

Note 9. Commitments And Contingencies

Federal grants: NDI receives a majority of its revenue from U.S. government funded grants and cooperative agreements, all of which are subject to audit. The ultimate determination of amounts received under these programs is generally based upon allowable costs reported to and subject to audit by sponsoring agencies. There exists a contingency to refund any amounts received in excess of allowable costs. Management believes that disallowed costs, if any, will be immaterial to the financial statements.

Line of credit: On September 3, 2009, NDI entered into a unsecured \$1,600,000 line of credit agreement to fund working capital needs and to bridge grant funding. The revolving credit facility bears interest at LIBOR plus 3.0% with no commitment fee on undrawn funds. NDI did not draw on the line of credit agreement during the year ended September 30, 2009, and the line of credit expires on March 31, 2010.

National Democratic Institute For International Affairs

Notes To Financial Statements

Note 10. Fair Value Measurement

During the year ended September 30, 2009, NDI adopted a new pronouncement regarding fair value measurement. This pronouncement defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under the Fair Value Topic of the Codification as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy under the Fair Value Topic of the Codification are described below:

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data

Level 3: Unobservable inputs that are not corroborated by market data

In certain cases, the inputs used to measure the fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. NDI's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy.

Assets	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ 636,261	\$ -	\$ -	\$ 636,261
Mutual funds	180,475	-	-	180,475
Common and preferred stock	9	-	-	9
	<u>\$ 816,745</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 816,745</u>

Certificates of deposit, mutual funds, and common and preferred stock are classified as Level 1 instruments as there are quoted market prices in active markets for identical assets.

